APPLICATION OF

SHENANDOAH GAS COMPANY **CASE NO. PUE970616**

For authority to increase its rates and charges for gas service and to revise its tariffs

HEARING EXAMINER'S RULING

March 24, 1998

On August 1, 1997, Shenandoah Gas Company ("Shenandoah Gas" or "the Company") filed an application for authority to increase its rates and charges for gas service and to revise its tariffs to increase the Company's total annual operating revenues by $2,306,000. By order dated August 20, 1997, the Commission scheduled the application for hearing, directed the Company to provide public notice of the hearing,[1] and established dates for the filing of pleadings and prepared testimony and exhibits. The Commission also authorized the Company to place its proposed rates into effect on an interim basis, subject to refund with interest, for service provided on and after December 28, 1997.

On December 9, 1997, Shenandoah Gas requested authorization to place its proposed rates into effect for service rendered on and after December 28, 1997. The Company included with its request an executed bond dated December 8, 1997, in the amount of $2,306,000, to secure any refunds that may be subsequently ordered by the Commission. On December 19, 1997, Shenandoah Gas revised the rates requested on December 9, 1997, for Rate Schedule No. 2 to match the revenue apportionment proposed in its application filed on August 1, 1997. This revision did not have an impact on the overall level of revenue requested by the Company.

On February 20, 1998, the Commission Staff filed its direct testimony in which it proposed that Shenandoah Gas's requested annual increase be reduced from $2,306,000 to $1,225,049.[2] In addition, the Staff offers an alternative revenue apportionment and rate design that produces a significant change in rate design. Moving from Shenandoah Gas's interim rates to Staff's recommended rate design will cause the rates of some customer classes to be decreased and the rates of other customer classes to be increased, under either the Company's or Staff's revenue requirement recommendation.

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[1] The notice published by Shenandoah Gas included the following: "While the total revenue requirement that may be approved is limited to the amount requested by Shenandoah, PLEASE TAKE NOTICE that individual rates and charges, revenue apportionment and the tariffs approved by the Commission may differ from those proposed by the Company."

[2] Subsequently, Staff revised its annual revenue recommendation to $1,228,053.

On March 12, 1998, Shenandoah Gas filed a Motion to Revise Interim Rates to incorporate the Staff's proposed changes in revenue apportionment and rate design. Specifically, the Company is concerned that adoption of Staff's revenue apportionment and rate design, which the Company now supports,[3] would increase substantially the proposed interim interruptible transportation rates placed into effect on December 28, 1997. Because the Company cannot collect through future rates any under-recovery of its costs during the period interim rates are in effect, Shenandoah Gas may under-collect the cost of service applicable to interruptible transportation service. Revising interim rates will limit the Company's exposure to such an under-collection of its cost of service. Therefore, Shenandoah Gas seeks to revise its interim rates to collect its original annual revenue increase request, utilizing the Staff's proposed revenue apportionment and rate design.

Virginia Code § 56-35 gives the Commission the power and duty "of supervising, regulating and controlling all public service companies doing business in this Commonwealth, in all matters relating to the performance of their public duties and their charges . . . ." Section 56-235 further grants the Commission the power "to fix and order substituted therefor such rate or rates, tolls, charges or schedules as shall be just and reasonable." As affirmed by the Virginia Supreme Court in *Commonwealth Gas Pipeline v. Anheuser-Busch,*[4] these sections provide the Commission with the power to fix and order substituted just and reasonable rates for rates that are unjust and unreasonable. Moreover, the Commission may exercise this power in regards to both interim and final rates.[5]

In this case, the Staff's proposed revenue apportionment and rate design dramatically alter rates from those currently in effect and subject to refund. Further, the Company is correct in that adoption of Staff's proposed revenue apportionment and rate design will increase, significantly, interruptible transportation rates. Because a higher cost of service cannot be collected retroactively, Shenandoah Gas will under-collect its cost of service for those rate classes that are increased under Staff's proposal until rates based on Staff's proposed revenue apportionment and rate design take effect. Therefore, I agree that the Company's interim rates should be adjusted to reflect Staff's revenue apportionment and rate design recommendations which are supported by all parties to the case.

However, rates designed to recover Shenandoah Gas's original revenue requirement request of $2,306,000 cannot be held to be just and reasonable at this time. The Company has agreed to all of the Staff's revenue requirement adjustments with the exception of capital structure, cost of debt, and cost of equity. Substituting the Company's recommendations for these items or an overall weighted cost of capital of 10.06% into Staff's revenue requirement calculation produces an annual revenue deficiency of $2,018,017.[6] In essence, by accepting Staff's operating income and rate base adjustments, Shenandoah Gas has reduced its requested annual increase by $287,991 or by about

[3] On March 16, 1998, the Company and Staff filed a Joint Offer of Stipulation that limits the issues in controversy in this case to the capital structure, cost of debt, and the cost of equity. Shenandoah Gas adopts Staff's position as to all other revenue requirement, revenue apportionment, and rate design issues.

[4] 233 Va. 396, 403-04 (1987).

[5] *Id.*

[6] *See* Attachment I.

12.5%.[7] Since all parties are advocating revenue requirements below the originally requested $2,306,000, rates designed to produce such an annual level of increase in revenues cannot be just and reasonable and cannot be substituted by the Commission as requested by Shenandoah Gas. Thus, Shenandoah Gas's Motion to Revise Interim Rates is ***denied*** as to the specific rates requested. Nonetheless, the Company may file revised interim rates designed to produce an annual increase that does not exceed its current revenue requirement request and that follow the Staff's proposed revenue apportionment and rate design methodology. Accordingly,

IT IS DIRECTED:

(1) That Shenandoah Gas limit any revised interim rates that it may file to an annual increase in revenues of no more than $2,018,017;

(2) That Shenandoah Gas file its revised interim rates with the Commission's Divisions of Economics and Finance, Energy Regulation, and Public Utility Accounting at least one (1) week prior to the effective date of the interim rates;

(3) That Shenandoah Gas continue keep accurate accounts in detail of all amounts received under its interim rates;

(4) That interest upon any refund hereinafter ordered by the Commission shall be computed from the date payment is due until the date refunds are made; and

(5) That Shenandoah Gas shall bear all costs of such refunding.

Alexander F. Skirpan, Jr.
Hearing Examiner

Document Control Center is requested to mail or deliver a copy of the above Ruling on March 24, 1998 to Donald R. Hayes, Esquire, Specialist, Sr.-Legal, Shenandoah Gas Company, 1100 H Street, N.W., Washington, D.C. 20080; Thomas B. Nicholson, Senior Assistant Attorney General, Division of Consumer Counsel, Office of the Attorney General, 900 East Main Street, Second Floor, Richmond, VA 23219; Marta B. Curtis, Esquire, Commission counsel; and to the Commission's Divisions of Economics and Finance, Energy Regulation, and Public Utility Accounting.

[7] *Id.*

Attachment I

Shenandoah Gas

Case No. PUE970616

Revenue Requirement Calculation

Line No.		Amount
1	Staff's Adjusted Jurisdictional Rate Base - per Sartelle Statement IV, revised 3/10/98	$ 39,160,271
2	Return - per Schedule 41 of the Rebuttal Testimony of Michael G. Donovan, filed 3/9/98	10.06%
3	Required Income (Ln 1 * Ln 2)	$ 3,939,523
4	Less: Adjusted Net Operating Income - per Sartelle Statement IV, revised 3/10/98	2,663,043
5	Required Income Increase (Ln 3 - Ln 4)	$ 1,276,480
6	Revenue Conversion Factor - per Sartelle Statement IV, revised 3/10/98	0.632542
7	Gross Revenue Increase Required (Ln 5 / Ln 6)	$ 2,018,017
8	Original Revenue Increase Request	$ 2,306,000
9	Reduction in Request (Ln 8 - Ln 7)	$ 287,983
10	Percentage Reduction (Ln 9 / Ln 8)	12.5%